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TREASURY FOR TORGERTON

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TAGS: ECON FIND EPET RS

SUBJECT: MEETING WITH ROSTEKHNOLOGII DEPUTY GENERAL
DIRECTOR ALEKSEY ALESHIN

Classified By: CDA Eric Rubin for Reasons 1.4 (b/d)

SUMMARY

¶11. (C) In a recent meeting with the Econ Minister Counselor, Deputy General Director of state corporation RosTekhnologii (RosTekh), Aleksey Aleshin said the GOR created RosTekh to revive Russia's industrial manufacturing base, particularly its high-tech defense-related industries. Aleshin said the plan is for RosTekh to restructure the state-owned companies turned over to it with some of the companies subsequently being sold via public offerings. Aleshin indicated that RosTekh was also interested in civilian companies, including in automobile manufacturing and the commercial airline sector. Aleshin's description of RosTekh's plans resembles corporate firesales of distressed companies rather than a strategy to advance the country's high technology development. End summary.

ROSTEKH: INDUSTRIAL GROUP IN THE MAKING

¶12. (SBU) According to Aleshin, in early 2007, RosTekh's management considered a number of different options to set up the state corporation. The first idea involved GOR budgetary transfers as "seed" money for the corporation. They eventually decided on the current path, which involved the transfer of a large number of GOR state-owned enterprises to RosTekh. He expected that the presidential decree authorizing the transfer would be signed in the coming weeks.

(NB: On July 10, Medvedev signed the decree transferring 426 state-owned enterprises to RosTekh.) Aleshin added that he had recently visited Italy's industrial defense group Finmeccanica, which was the corporate model RosTekh was pursuing.

¶13. (SBU) Aleshin said RosTekh planned to group these enterprises, mainly defense and high-tech in focus, but also including a number of enterprises in civilian sectors, into 30 integrated holding companies. (NB: According to press reports, RosTekh plans to organize 27 defense-related and three civilian sector holding companies.) Aleshin mentioned a number of possible businesses that RosTekh planned to pursue through these holding companies, including composite materials, medical equipment, ecological monitoring systems, and an airline.

¶4. (SBU) Aleshin said many of these enterprises already provided valuable goods and services, but had been poorly managed by the government. RosTekh planned to rehabilitate these enterprises by restructuring them and putting them under new management. He said this should increase the companies' market value. RosTekh would eventually sell off many of these restructured entities through public offerings.

The GOR, through RosTekh, would retain 25 to 50 percent stakes in some of these companies, while others would be sold outright. Proceeds from these sales would then be used to finance RosTekh's R&D programs and rehabilitate and restructure more of the companies.

¶5. (SBU) Aleshin referred to RosTekh as a cross between a business incubator and a venture fund. In response to a question about whether RosTekh's daughter companies would compete with each other, Aleshin said that these enterprises produced such unique products that he did not envision any domestic competition for their products. Internationally, RosTekh would employ its 45 overseas representative offices inherited from Rosoboronexport to market and distribute the company's multiple product lines.

WE NEED PEOPLE AND MONEY

¶6. (SBU) Aleshin said that a labor shortage was the most pressing problem facing RosTekh. RosTekh's plans to create 30 separate holding companies would require an entire class of new managers. In this regard, he said they were

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cooperating with both Moscow State Institute for International Affairs (MGIMO) and the Bauman Technical University to develop special courses to train RosTekh's managers.

¶7. (SBU) With respect to foreign investment, Aleshin said RosTekh itself is not considered a strategic enterprise because it acts as a holding company. However, some of its companies were covered under the recently passed Strategic Sectors Law. Foreign investors could still invest in them as long as they followed the new law's guidelines. He added that the RosTekh's management viewed foreign investment as an essential source of funding and technology for RosTekh. He noted that RosTekh already had a good working relationship with Boeing, through its daughter company, VSMPO-AVISMA, the titanium manufacturer. This was the type of productive relationship with foreign companies that RosTekh hoped to conclude in other high-tech fields.

CARS AND PLANES

¶9. (SBU) On RosTekh's future plans for Avtovaz, Aleshin noted that as a state corporation, RosTekh was not driven solely by the profit motive. It also had a role to play in advancing government policies. Avtovaz was a large employer and there was no question of allowing it to be downsized. RosTekh would retain a large stake in the automobile manufacturer for at least the next five years. Moreover, Renault's purchase of a share of the company had improved its prospects.

¶10. (SBU) Turning to the recent transfer of the GOR's stake in the start-up airline, AirUnion, to RosTekh, Aleshin said the goal was to create the second largest air carrier in Russia, after Aeroflot and to make the new airline an international player on foreign routes. To further this objective, he expected the GOR to transfer its stakes in other small airlines to RosTekh in the near future.

COMMENT

¶11. (C) President Medvedev signed the decree on July 10, 2008 despite strong protests from both Finance Minister Kudrin and Economic Development Minister Nabiullina. The critics main argument against the transfer centered on RosTekh's interest in civilian businesses that are unrelated to RosTekh's core mandate to "promote the development, manufacturing, and export of high technology products."

¶12. (C) We share the critics' suspicions. RosTekh's plans appear more reminiscent of corporate raiders buying out distressed companies and flipping them for a quick profit than of a strategy to advance Russia's technological development. More importantly, Medvedev's approval of RosTekh's expansion into the civilian economy is at variance with and calls into question his public statements on decreasing the role of the state and state corporations in the Russian economy.

RUBIN